

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 NEA-10 ISO-00 AID-05 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00
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FM AMEMBASSY TUNIS

TO SECSTATE WASHDC PRIORITY 8035

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

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PARIS FOR OECD

E.O. 11652: N/A

TAGS: EFIN, EGEN, TS

SUBJ: DEVALUATION RUMORS

REF: TUNIS 6103

1. IN MIDST OF AUGUST DOLDRUMS IN TUNIS, RUMORS RAMPANT THAT
GOT WILL DEVALUE TUNISIAN DINAR 20 TO 25 PERCENT FROM PRESENT
AVERAGE RATE TO APPROXIMATELY \$2.33 DINARS TO DOLLAR. (EX-
CHANGE RATE ESSENTIALLY IS PEGGED TO FRENCH FRANC, WITH CROSS
RATES FOR OTHER CURRENCIES BASED ON PARIS EXCHANGE MARKET.)

2. ARGUMENTS ADVANCED TO SUPPORT RUMORED MOVE TYPICALLY CITE
DISAPPOINTING TOURIST SEASON, INCREASED DEFICIT ON MERCHANDISE
TRADE, DECLINING OFFICIAL RESERVES, AND--AMONG NON-TUNISIANS--
PURCHASING POWER PARITY ARGUMENTS. RECENT SPANISH DEVALUATION
LURKS SOMEWHERE IN BACKGROUND.

3. WE FIND ARGUMENTS INADEQUATE, ESPECIALLY GIVEN WEAK PRICE

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ELASTICITIES OF DEMAND BOTH FOR TUNISIAN IMPORTS AND FOR EXPORTS
OTHER THAN TOURIST SERVICES AND TEXTILES--WHICH THEMSELVES FACE
MORE SERIOUS PROBLEMS OF QUANTITATIVE RESTRICTIONS AND QUALITY,
RESPECTIVELY--AND PRICE INELASTIC SUPPLY OF MAJOR EXPORT COM-
MODITIES SUCH AS PETROLEUM. ALSO, WHILE REDUCTION IN REAL
WAGES THROUGH DEVALUATION COULD GIVE BOOST TO FOREIGN INVESTMENT,
WE BELIEVE PROSPECT OF DISCARDING "SOCIAL COMPACT" OF LAST JAN-

UARY WILL APPEAL NEITHER TO LABOR (UGTT) NOR TO GOVERNMENT CONCERNED WITH STABILITY. (ANOTHER LARGE ROUND OF WAGE INCREASES AND HIGHER GOOD SUBSIDIES COULD, OF COURSE, NEGATE ECONOMIC BENEFITS OF DEVALUATION.) ALSO, WHILE OFFICIAL RESERVES ARE DOWN SHARPLY BOTH FROM ONE-YEAR AND SIX-MONTHS AGO, WE UNDERSTAND THEY STILL MEET REASONABLE CRITERIA FOR IMPORT COVERAGE.

4. COMMENT: NOT BEING PERSUADED OF ECONOMIC OR SOCIO-POLITICAL LOGIC OF DEVALUATION, WE ARE SKEPTICAL THAT NOUIRA GOVERNMENT-- KNOWN FOR ITS CONSERVATIVE BUT CANNY FINANCIAL MANAGEMENT-- WOULD MAKE RUMORED MOVE UNLESS UNDER STRONG PRESSURE. WHILE WE SUPPOSE IT IS POSSIBLE THISMIGHT COME, FOR INSTANCE, FROM IMF IF REPEAT IF GOT SHOULD FEEL FORCED TO REQUEST SECOND TRANCHE DRAWING, LOANS CURRENTLY UNDER NEGOTIATION WITH COMMERCIAL BANKS AT FAVORABLE RATES SHOULD PROVIDE MAJOR BOOST TO RESERVES. (SEE TUNIS 6103).

5. WE WILL REPORT DEVELOPMENTS AND MEANWHILE WOULD WELCOME INDICATION WHETHER WASHINGTON AND BANKER ANALYSIS OF PROS AND CONS OF DEVALUATION IS IN LINE WITH OUR OWN.
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